

01 October 2023

India | Equity Research | Company Update

Marico

Consumer Staples & Discretionary

CXO 1x1: Saugata Gupta, MD & CEO

We met Saugata Gupta, MD & CEO, Marico. Takeaways: (1) Marico has medium-term volume growth aspiration of ~8% (versus revenue growth of 8% in FY2013-2023). We like the ambition to grow faster on a larger base, (2) in PCNO, with stability in copra price and revival in rural consumption, volume growth is likely to improve, (3) competitive intensity at the bottom of pyramid (BOP) segment in value-added hair oil has normalized. This along with incremental thrust on premiumization may help value growth in VAHO to gradually improve, (4) in edible oil, Saffola expects to hold threshold margin while maintaining stable growth, (5) revenue from food segment is expected to be more than edible oil business over the medium term. This may reduce operating margin volatility due to reduced exposure to cyclical commodity price, (6) on D2C brands, incremental focus would be on profitable scale-up by using distribution and marketing strength. Upgrade to **BUY** (ADD previously).

Stability in raw material price and expected recovery in rural to drive PCNO volume growth

In PCNO, MRCO has gained significant market shares from unbranded players during 2004-2023. Market share of un-branded players was 50% in FY2004, which reduced to ~30% in FY2023. However, it's interesting to note that the market for loose coconut oil predominantly lies in Maharashtra (coastal), Andhra Pradesh, Tamil Nadu, Karnataka and Kerala. Further, rise in competitive intensity in coconut oil segment has been largely restricted to modern retail channels where it's easier to gain tactical volume market share by heavy discounting which can't be a sustainable model. Overall market share of PCNO has remained strong while competition's gain could be from the unbranded segment. Now, with stability in the copra price and expected revival in rural consumption, volume growth may improve gradually.

VAHO; competition in BOP has likely bottomed out

Premium hair oil segment has been underperforming as consumers downgraded to value price points due to inflation. In hair oil, frequency of usage is higher among lower income group consumers (lower LSM) vs. other discretionary segments like shampoo (higher consumption in higher LSM). Also, opportunity to convert from unbranded to branded is higher in hair oil vs shampoo, soaps etc. Hence, inflation had larger impact on the consumption of hair oil. This also constricted consumer's movement from unbranded to branded. Positively, competitive intensity, which was higher in BOP (Amla and Sarso etc) has normalized now.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	95,120	97,640	1,03,241	1,15,997
EBITDA	16,810	18,100	21,163	24,335
EBITDA Margin (%)	17.7	18.5	20.5	21.0
Net Profit	12,250	13,020	15,272	17,502
EPS (Rs)	9.5	10.1	11.8	13.6
EPS % Chg YoY	5.6	5.3	17.5	14.6
P/E (x)	57.7	54.8	46.6	40.7
EV/EBITDA (x)	42.5	39.3	33.5	29.0
RoCE (%)	32.9	30.7	33.0	36.8

Manoj Menon

manoj.menon@icicisecurities.com

+91 22 6807 7209

Varun Singh

varun.singh@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Akshay Krishnan

akshay.krishnan@icicisecurities.com

Market Data

Market Cap (INR)	727bn
Market Cap (USD)	8,750mn
Bloomberg Code	MRCO IN
Reuters Code	MRCO.BO
52-week Range (INR)	592 /463
Free Float (%)	40.0
ADTV-3M (mn) (USD)	11.7

Price Performance (%)	3m	6m	12m
Absolute	5.8	17.1	5.4
Relative to Sensex	2.0	12.7	16.1

ESG Disclosure	2021	2022	Change
ESG score	56.1	55.5	(0.6)
Environment	31.9	30.2	(1.7)
Social	45.2	45.2	-
Governance	91.1	91.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

29-07-2023: [Q1FY24 results review](#)

07-05-2023: [Q4FY23 results review](#)

Hence, with incremental focus on premiumization and recovery in rural, value growth in VAHO is expected to gradually improve and deliver double digit value growth in medium term.

Edible oil – Profitable growth

Due to premium pricing, distribution of Saffola has been over-indexed to modern trade, e-commerce and top-10 cities in general trade (GT). In this segment, MRCO would choose not to grow volumes at the cost of margins (compared to low-price competition from other brands like; Fortune, Sundrop etc). Interestingly, while Saffola competes with the USP of 'heart health', Fortune competes on the emotional appeal of relationship (Ma Ke Haath Ka Swaad) and taste. Hence, the customers overlapping between the two brands would not be significant. However, with gradual scaling up of food business (which has higher margin), MRCO could drive deeper penetration of the brand Saffola.

MRCO aims to position Saffola as a brand which helps consumers to maintain a 'healthier lifestyle' compared to its earlier positioning of a brand which is meant for consumers having 'heart ailments'.

Focus on food to enhance TAM and reduce margin volatility

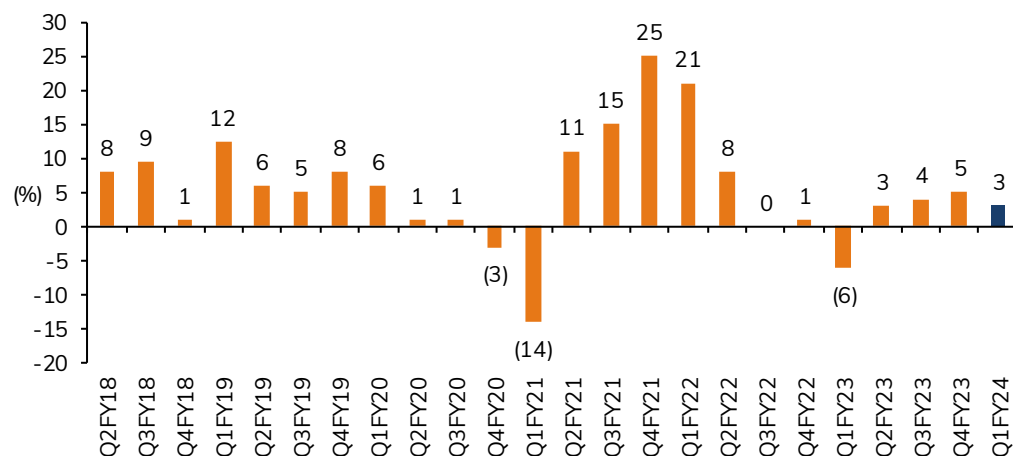
Opportunity of scalability is high in food while penetration is low. Hence, MRCO's incremental focus is to grow its food portfolio at 15-20% CAGR during FY23-25. Management aims overall business from food to be higher than Saffola over the medium term (3-5 years). This may also help portfolio diversification and reduce volatility in operating profit margins due to cyclical commodity prices. Gross margin in food business is higher than Saffola (oil). We reckon, at the scale of revenue of INR 2bn (in foods), it is feasible to breakeven.

D2C acquisitions – scaling-up brands through synergy benefits

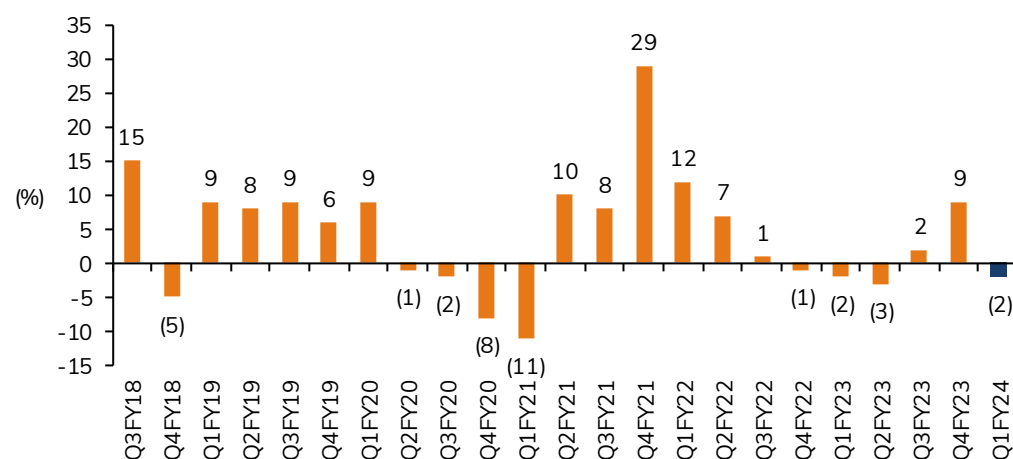
MRCO's approach towards acquisitions has been simplified into following steps: (1) Categories adjacent to MRCO's core portfolio (to fill portfolio gaps), (2) conservative cash burn at brand level, (3) commercial sense of founders, (4) meaningful equity of the promoters post Marico coming in. Over the last few years, it has acquired several D2C brands like Beardo (2018), Just Herbs (2021), True Elements (2022). In Jul'23, it acquired a majority stake in Plix, which provides plant-based nutrition to health conscious consumers. This segment is important in premium category as consumer cohort in that segment is more conscious towards weight management. MRCO would now aim to scale up these brands synergistically by using its distribution and marketing strength.

Valuation and risks

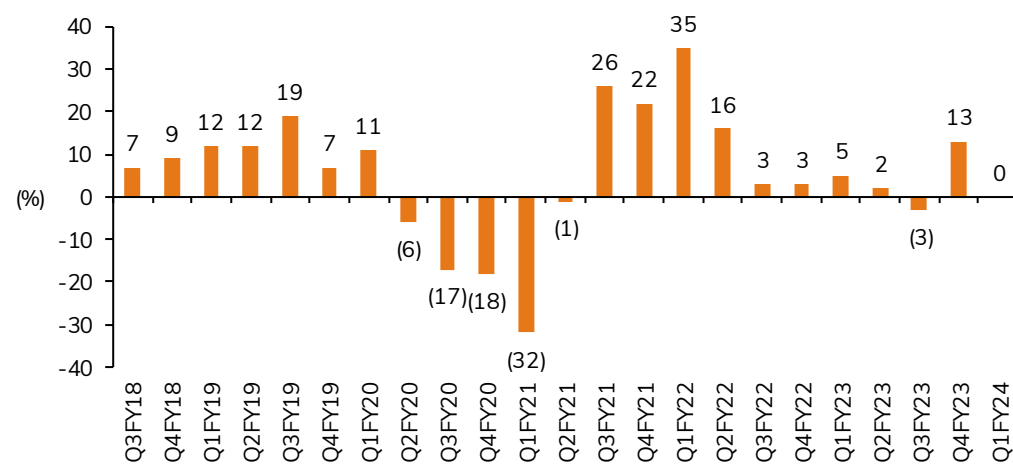
We maintain our earnings estimates for FY24-25E, modelling revenue / EBITDA / PAT CAGR of 9 / 16 / 16 (%) over FY23-25E. We upgrade to BUY (from ADD) with a revised DCF-based target price of INR 670 (vs previous TP of INR 610). At our target price, the stock will trade at 49x P/E multiple Mar'25E. Key downside risk: Higher-than-expected inflation in copra prices.

Exhibit 1: Domestic business volume growth

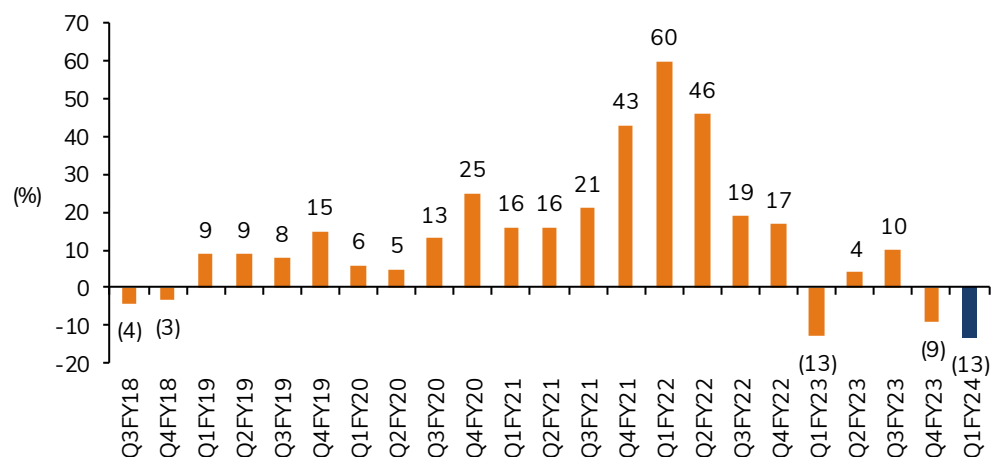
Source: Company data, I-Sec research

Exhibit 2: Parachute volume growth

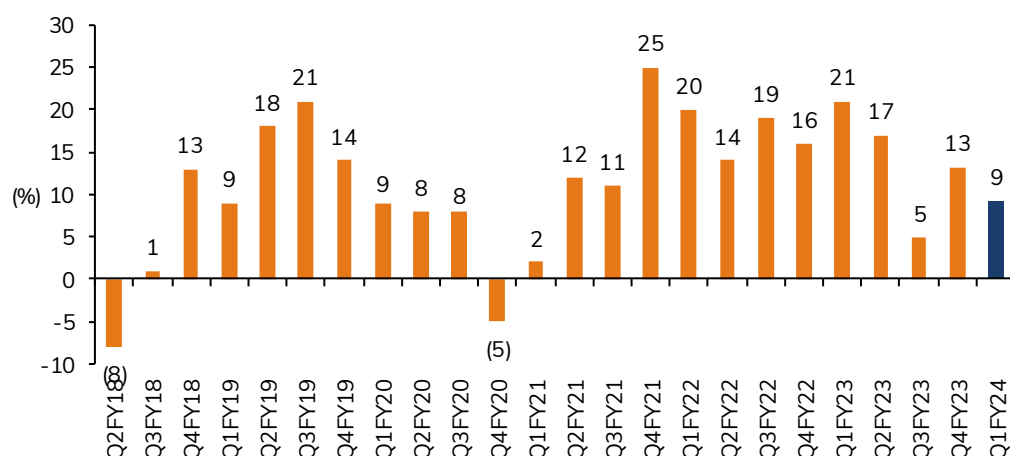
Source: Company data, I-Sec research

Exhibit 3: VAHO value growth

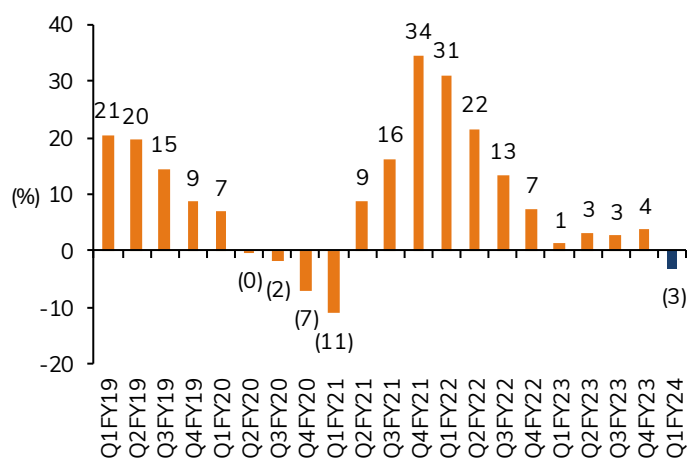
Source: Company data, I-Sec research

Exhibit 4: Saffola value growth

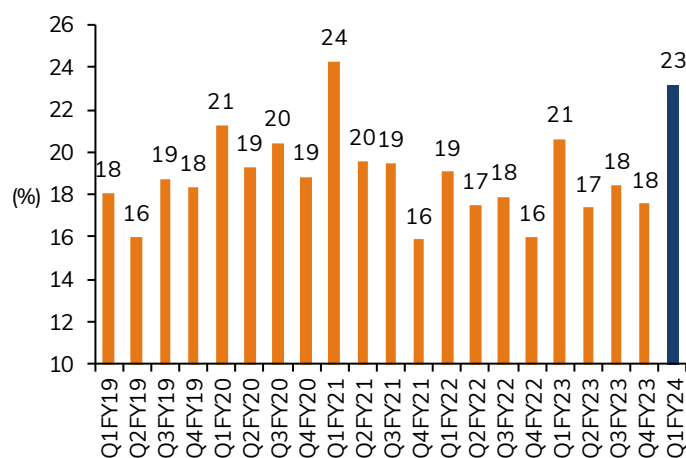
Source: Company data, I-Sec research

Exhibit 5: International business revenue growth (reported)

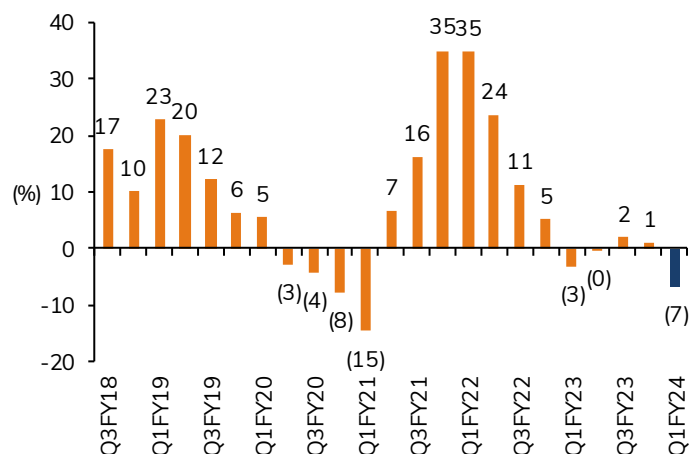
Source: Company data, I-Sec research

Exhibit 6: Consolidated revenue growth

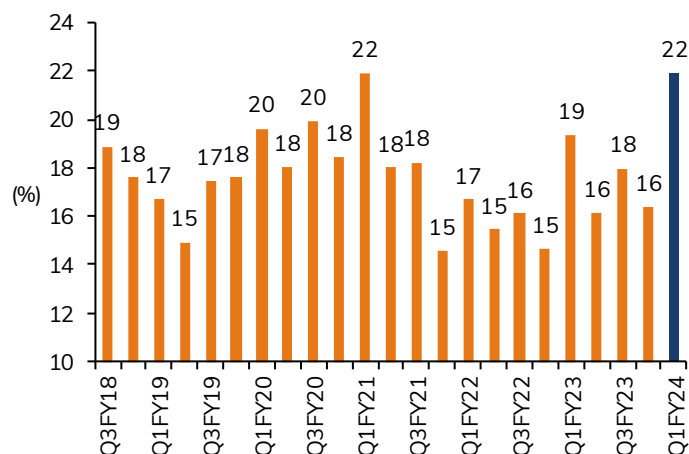
Source: Company data, I-Sec research

Exhibit 7: Consolidated EBITDA margin

Source: Company data, I-Sec research

Exhibit 8: Standalone revenue growth

Source: Company data, I-Sec research

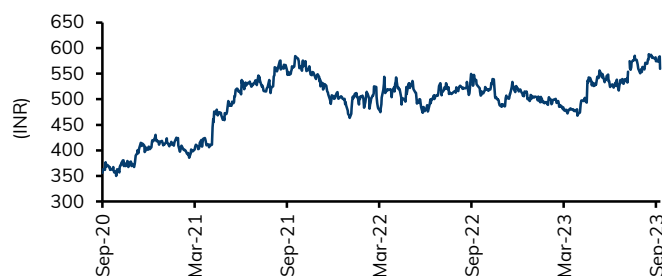
Exhibit 9: Standalone EBITDA margin

Source: Company data, I-Sec research

Exhibit 10: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	59.5	59.4	59.4
Institutional investors	35.3	35.4	35.5
MFs and other	3.0	3.3	3.3
FIs/ Banks	5.6	5.5	5.6
FIIIs	26.7	26.6	26.6
Others	5.2	5.2	5.1

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	95,120	97,640	1,03,241	1,15,997
Operating Expenses	78,310	79,540	82,078	91,663
EBITDA	16,810	18,100	21,163	24,335
EBITDA Margin (%)	17.7	18.5	20.5	21.0
Depreciation & Amortization	1,390	1,550	1,616	1,749
EBIT	15,420	16,550	19,547	22,586
Interest expenditure	390	560	672	739
Other Non-operating Income	980	1,440	1,609	1,620
Recurring PBT	16,010	17,430	20,484	23,467
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,460	4,210	4,948	5,668
PAT	12,550	13,220	15,536	17,799
Less: Minority Interest	(300)	(200)	(264)	(297)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	12,550	13,220	15,536	17,799
Net Income (Adjusted)	12,250	13,020	15,272	17,502

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	35,050	38,200	41,317	46,430
of which cash & cash eqv.	12,200	13,340	15,201	17,278
Total Current Liabilities & Provisions	18,080	19,560	20,767	23,428
Net Current Assets	16,970	18,640	20,550	23,002
Investments	2,090	5,340	5,340	5,340
Net Fixed Assets	6,000	6,330	5,899	5,424
ROU Assets	1,780	1,750	1,750	1,750
Capital Work-in-Progress	390	670	670	670
Total Intangible Assets	9,600	14,220	14,220	14,220
Long Term Loans & Advances	210	360	381	428
Deferred Tax assets	-	-	-	-
Total Assets	37,910	48,440	50,005	52,176
Liabilities				
Borrowings	3,450	4,750	4,750	4,750
Deferred Tax Liability	(780)	320	320	320
Provisions	280	240	254	285
Other Liabilities	910	3,570	3,775	4,241
Equity Share Capital	1,290	1,290	1,290	1,290
Reserves & Surplus	32,190	36,700	37,782	39,159
Total Net Worth	33,480	37,990	39,072	40,449
Minority Interest	570	1,570	1,834	2,131
Total Liabilities	37,910	48,440	50,005	52,176

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	24,960	24,700	22,400	24,770
% growth (YOY)	3.2	2.6	3.7	(3.2)
EBITDA	4,330	4,560	3,930	5,740
Margin %	17.3	18.5	17.5	23.2
Other Income	190	400	680	460
Extraordinaries	-	-	-	-
Adjusted Net Profit	3,010	3,280	3,020	4,270

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	10,160	14,190	16,299	18,595
Working Capital Changes	(3,420)	(590)	84	(72)
Capital Commitments	(1,870)	(5,230)	(1,186)	(1,274)
Free Cashflow	8,290	8,960	15,114	17,321
Other investing cashflow	6,150	(4,060)	1,609	1,620
Cashflow from Investing Activities	4,280	(9,290)	424	346
Issue of Share Capital	410	90	-	-
Interest Cost	(390)	(530)	(672)	(739)
Inc (Dec) in Borrowings	(110)	1,320	-	-
Dividend paid	(12,170)	(6,070)	(14,190)	(16,125)
Others	(640)	(410)	-	-
Cash flow from Financing Activities	(12,900)	(5,600)	(14,862)	(16,864)
Chg. in Cash & Bank balance	1,540	(700)	1,861	2,077
Closing cash & balance	2,650	1,320	3,181	5,258

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	9.7	10.2	12.0	13.8
Adjusted EPS (Diluted)	9.5	10.1	11.8	13.6
Cash EPS	10.6	11.3	13.1	14.9
Dividend per share (DPS)	9.3	10.0	11.0	12.5
Book Value per share (BV)	26.0	29.4	30.3	31.4
Dividend Payout (%)	95.1	97.6	91.3	90.6
Growth (%)				
Net Sales	18.2	2.6	5.7	12.4
EBITDA	5.7	7.7	16.9	15.0
EPS (INR)	5.6	5.3	17.5	14.6
Valuation Ratios (x)				
P/E	57.7	54.8	46.6	40.7
P/CEPS	53.1	49.7	42.9	37.6
P/BV	21.6	19.1	18.5	17.9
EV / EBITDA	42.5	39.3	33.5	29.0
P / Sales	7.6	7.4	7.0	6.2
Dividend Yield (%)	1.6	1.8	2.0	2.2
Operating Ratios				
Gross Profit Margins (%)	42.9	45.2	48.8	49.0
EBITDA Margins (%)	17.7	18.5	20.5	21.0
Effective Tax Rate (%)	21.6	24.2	24.2	24.2
Net Profit Margins (%)	13.2	13.5	15.0	15.3
Net Debt / Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Debt / EBITDA (x)	(0.6)	(0.8)	(0.7)	(0.7)
Fixed Asset Turnover (x)	9.1	8.6	8.3	8.5
Working Capital Days	20	20	19	19
Inventory Turnover Days	59	46	47	48
Receivables Days	27	38	39	40
Payables Days	56	55	56	58
Profitability Ratios				
RoCE (%)	32.9	30.7	33.0	36.8
RoE (%)	36.8	35.4	38.0	41.9
RoIC (%)	35.0	33.4	35.7	39.5

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
